

GENERAL RETIREMENT SYSTEM  
and  
POLICE and FIRE RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
CITY OF GRAND RAPIDS  
MICHIGAN

MINUTES  
JOINT MEETING  
JANUARY 19, 2011 – 8:23 a.m.  
233 East Fulton

The meeting was called to order by Chairman J. Patrick Scripps. Other members present: Mr. David Tryc, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. James Stokes, Mr. Michael Hawkins, Mr. Philip Balkema and Mr. Walter Gutowski. Absent: Mr. Craig VanderWall and Ms. Dianette Hight.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. John Napoli, Mr. Christopher Harlin and Mr. Lawrence Fumarolo of The Northern Trust Company, Mr. Daniel Hynes of Northern Trust Global Investments and Mr. Matthew Clark of Pacific Investment Management Company.

Mr. VanderPloeg made the motion to excuse the absences of Mr. VanderWall and Ms. Hight. The motion was seconded by Mr. Hawkins and carried.

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of December 15, 2010. The motion was seconded by Mr. Hawkins and carried.

Mr. John Napoli, Officer, Mr. Christopher Harlin, Securities Lending Relationship Manager and Senior Vice President, and Mr. Lawrence Fumarolo, Vice President of The Northern Trust Company (NT) provided Trustees with a report on NT and the Securities Lending program. Mr. Fumarolo noted that NT has \$3.9 trillion in assets under custody, \$876.6 billion in assets under administration and \$657.0 billion in assets under management. He stated that approximately 73% of annual corporate revenues are derived from fee-based, non-interest activities. NT is sharply focused on asset management and asset servicing and has an unsurpassed credit rating history; NT has had a AA rating for 20 years, one of only six U.S. bank holding companies to hold this designation. Mr. Fumarolo stated that NT has a single integrated global platform strategy that allows them to bring new system enhancements to market more quickly, as each enhancement is only developed and implemented once. He reviewed the benefits of NT's online Institutional Investor Passport and provided updates on their benefit payments system. He asked Trustees if they had investigated a commission recapture program. Ms. Korzen stated that there isn't a significant opportunity for this type of program as the plans have a number of portfolios that are funds. Chairman Scripps stated that Wilshire Associates had provided Trustees with a few commission recapture studies in the past and it did not seem like a prudent program to be involved in. Mr. Fumarolo suggested that he could have an evaluation prepared for Trustees on this type of program and provide the results to Trustees; Chairman Scripps stated that would be helpful. Mr. Napoli reviewed the securities lending process with Trustees. He stated that as of 09/30/10, NT has 462 participating clients, \$677.4 billion in lendable securities and \$108 billion in loans outstanding. NT has 49 worldwide markets, 24-hour trading capabilities in Chicago, Toronto, London and Hong Kong, 40 approved counterparties and \$111.7 billion in cash and non-cash collateral. The cash is managed jointly with \$222.8 billion in NT's short duration fixed income division. Mr. Napoli reviewed the risk associated with securities lending: 1) borrower risk; 2) trade settlement risk; 3) cash collateral reinvestment risk; and 4) interest rate risk. Mr. Napoli noted that loan balances continue to improve modestly despite ongoing lower levels of trading activity. Equity markets had strong performance in September, though concerns over the strength of the global economic recovery continue to weigh on equity prices. Wide spreads remain for the most in-demand equity securities, while short-term fixed income markets are generally more liquid than

observed a few months ago. Mr. Harlin reviewed the investment profile of the Core USA Securities Lending product that the Retirement Systems participate in. He noted that just under 70% of the maturities for the securities are 180 days or less. As of December 2010, the General Retirement System has had cumulative net earnings since 2004 of \$505,975 and the Police & Fire Retirement System had cumulative net earnings of \$441,557. Mr. Napoli stated that most of NT's Securities Lending clients, the City of Grand Rapids Retirement Systems included, fared quite well after the collateral deficiency that was declared due to the Lehman Brothers bankruptcy. Chairman Scripps commended NT for their efforts during the collateral deficiency period. The report was received and filed by Chairman Scripps.

Mr. Daniel Hynes, Vice President of Northern Trust Global Investments (NTGI), presented his firm's annual report to Trustees. Mr. Hynes noted that NTGI has \$657.2 billion in assets under management as of September 30, 2010, with \$286.7 billion of that amount in global index products. Mr. Hynes reviewed NTGI's investment management organization, people and process. The following returns were reported for the period ending December 31, 2010:

	<u>1 mo.</u>	<u>3 mo.</u>	<u>YTD</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>10 yr.</u>
NT S&P 500 Index Fund	6.69%	10.76%	15.08%	15.08%	-3.00%	2.21%	1.41%
S&P 500	6.68%	10.76%	15.06%	15.06%	-2.86%	2.29%	1.41%

Mr. Hynes provided Trustees with some of the current trends in global investing. He noted that some of the recent catalysts for Index management include: 1) reducing risk across asset classes; 2) separating alpha and beta positions; 3) increasing transparency and liquidity needs; and 4) disappointment with active management during the market turmoil. He commented that investors are seeking to reduce their home country bias and as a result are recognizing the systematic underweight to asset classes such as emerging markets and global small cap strategies. The report was received and filed by Chairman Scripps.

Mr. Matthew Clark, CFA and Vice President of Pacific Investment Management Company (PIMCO), presented his firm's annual report to Trustees. Mr. Clark provided Trustees with an overview of PIMCO's organization, people and process. PIMCO has \$1.2 billion in assets under management as of September 30, 2010 with 1,411 employees, of which, 486 are investment professionals. The following returns were reported for the period ending December 31, 2010:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>3 mo.</u>	<u>6 mo.</u>	<u>Since 09/30/87</u>	<u>Since Inception*</u>
StocksPLUS L.P.	1.8%	2.8%	-2.1%	17.9%	11.0%	24.6%	9.0%	0.4%
S&P 500	1.4%	2.3%	-2.9%	15.1%	10.8%	23.3%	8.5%	0.0%

\*Inception date: 08/31/00

Mr. Clark noted that the outlook for the StocksPLUS portfolio is attractive over the near and longer term as attractive levels of structural excess returns are available in the market and PIMCO's active management of the collateral is an important part of achieving attractive risk adjusted returns and ensuring proper liquidity management. He stated that structural yield advantages remain attractive and has offered a consistent source of outperformance over the life of the StocksPLUS strategy. Mr. Clark commented that PIMCO will increase total carry through high quality spread. He explained that higher volatility in the "New Normal" rewards patience and a flexible investment framework. PIMCO expects sluggish growth in the developed world over the cyclical horizon and Treasury yields rise on signs of consumer-led recovery with a pick-up in inflation expectations. They expect that developed economies will re-plate to a 4-6% nominal growth rate in 12-18 months, there will be sustainable growth of 4-6% that will be reached over a 24-36 month horizon and there should be a partial recovery of 1-3%. The report was received and filed by Chairman Scripps.

There were no comments on items not on the agenda.

Board approval was requested for attendance at the following conferences: 2011 MAPERS One Day Seminar to be held February 10, the 2011 Wilshire Client Conference to be held April 10-12, the

Spring 2011 MAPERS Conference to be held May 1–3 and the 2011 Annual NCPERS Conference to be held May 22–26. Mr. Balkema made the motion to approve attendance of the aforementioned conferences by Trustees, legal counsel and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Tryc and carried.

Ms. Korzen noted that the City of Grand Rapids will be issuing an RFP for auditing services this year and asked whether the Retirement Systems would like to be included in this process. She stated that she does have quotes from Plante & Moran as a result of the discussions that she and Mr. Hawkins had with them a few years ago. They did provide a 3-year quote that would carry the Retirement Systems' audits through December 2011. If Trustees would like to have the Retirement Systems included in the City's audit RFP it would be for audits beginning June 30, 2012. Ms. Korzen stated that she is happy with the improved services that Plante & Moran is currently providing. Mr. Balkema asked if the City utilizes Plante & Moran currently; Ms. Korzen stated they use BDO Seidman. There is some discussion in the City as to whether they will issue the RFP now asking for auditing services this coming June, or will they extend their current contract with BDO for another year and still issue the RFP now but have those services begin next year. Ms. Korzen stated that regardless of how they City words their RFP, if the Retirement Systems are included in the RFP, they can word their part of the services to begin with the June 30, 2012 audit. Ms. Korzen commented that her question to the City is whether or not the Retirement Systems (and the other authorities in the RFP) would be obligated to select the same auditor as the City or would there be independent quotes for each authority within that RFP; she has not received a response to this question as of yet. Mr. Balkema stated that the RFP would have to be written very clearly to allow for independent quotes for the various authorities within the RFP. Chairman Scripps commented that although there were a number of years that there were problems with Plante & Moran, they have recently been providing adequate services to the Retirement Systems. He did not believe the cost savings would be that great to compel Trustees to select the same auditor as the City and there is some benefit from an accountability standpoint to the Retirement Systems in having a different auditor than the City. Trustees decided not to be included in the City's audit RFP.

Trustees were given the due diligence list for 2011 and asked to sign up for the visits that they are available to conduct to the various consultants and managers.

Chairman Scripps thanked Ms. Lisa Balkema and Ms. Jackie Williams for their hard work during Ms. Korzen's absence in December.

The meeting adjourned at 9:37 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, February 16, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems